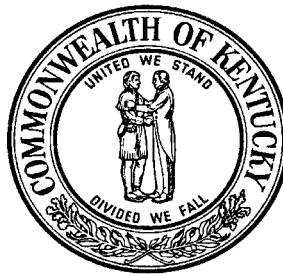


**REPORT OF THE AUDIT OF THE  
POWELL COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**July 13, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Robert Ray Drake, Powell County Judge/Executive

Honorable Joe Martin, Powell County Sheriff

Members of the Powell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Powell County Sheriff's Settlement - 2003 Taxes as of July 13, 2004.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Powell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
POWELL COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**July 13, 2004**

**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY  
Telephone (502) 499-9088  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**POWELL COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**July 13, 2004**

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Powell County Sheriff as of July 13, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,096,628 for the districts for 2003 taxes, retaining commissions of \$86,991 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,046,791 to the districts for 2003 Taxes. Taxes of \$231 are due to the districts from the Sheriff.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Robert Ray Drake, Powell County Judge/Executive

Honorable Joe Martin, Powell County Sheriff

Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the Powell County Sheriff's Settlement - 2003 Taxes as of July 13, 2004. This tax settlement is the responsibility of the Powell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Powell County Sheriff's taxes charged, credited, and paid as of July 13, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Robert Ray Drake, Powell County Judge/Executive

Honorable Joe Martin, Powell County Sheriff

Members of the Powell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
February 1, 2005

POWELL COUNTY  
JOE MARTIN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

July 13, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 250,913	\$ 232,424	\$ 887,439	\$ 351,278
Tangible Personal Property	16,667	18,211	58,598	60,255
Intangible Personal Property				12,082
Fire Protection	1,184			
Increases Through Exonerations	30	28	105	42
Franchise Corporation	53,312	56,147	189,589	
Additional Billings	204	189	723	286
Clay Reserves	50	46	176	70
Oil and Gas Property Taxes	66	61	233	92
Limestone, Sand, and Mineral Reserves	163	151	576	228
Bank Franchises	24,361			
Penalties	3,063	2,832	10,782	4,276
Adjusted to Sheriff's Receipt	159	209	(180)	(65)
Gross Chargeable to Sheriff	<u>\$ 350,172</u>	<u>\$ 310,298</u>	<u>\$ 1,148,041</u>	<u>\$ 428,544</u>
<u>Credits</u>				
Exonerations	\$ 1,337	\$ 1,237	\$ 4,722	\$ 1,869
Discounts	4,057	3,338	12,561	5,797
Delinquents:				
Real Estate	15,306	14,119	53,909	21,339
Tangible Personal Property	68	74	239	248
Oil Property	29	27	105	41
Uncollected Franchise	1	1	3	
Total Credits	<u>\$ 20,798</u>	<u>\$ 18,796</u>	<u>\$ 71,539</u>	<u>\$ 29,294</u>
Taxes Collected	\$ 329,374	\$ 291,502	\$ 1,076,502	\$ 399,250
Less: Commissions *	<u>14,286</u>	<u>12,389</u>	<u>43,060</u>	<u>17,256</u>
Taxes Due	\$ 315,088	\$ 279,113	\$ 1,033,442	\$ 381,994
Taxes Paid	314,311	278,474	1,031,351	379,849
Refunds (Current and Prior Year)	<u>728</u>	<u>586</u>	<u>1,969</u>	<u>2,138</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 49</u>	<u>\$ 53</u>	<u>\$ 122</u>	<u>\$ 7</u>

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY  
JOE MARTIN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
July 13, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,010,126
4% on	\$	1,076,502

\*\* Special Taxing Districts:

Library District	\$	23
Health District		13
Extension District		<u>17</u>
Due Districts	\$	<u><u>53</u></u>

POWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

July 13, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 13, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

POWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 13, 2004  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2003 through May 28, 2004.

Note 4. Interest Income

The Powell County Sheriff earned \$1,414 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of October 8, 2004, the Sheriff owes \$103 in interest to the school district and \$108 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Powell County Sheriff collected \$18,069 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 8, 2004, the Sheriff owes \$1,617 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Powell County Sheriff collected \$2,304 of advertising costs and \$2,310 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of October 8, 2004, the Sheriff owes \$1,200 in advertising fees to his fee account.

COMMENT AND RECOMMENDATION



POWELL COUNTY  
JOE MARTIN, SHERIFF  
COMMENT AND RECOMMENDATION

As of July 13, 2004

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the diversity of operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned the bookkeepers to perform all of the accounting functions in the office. We recommend that the Sheriff periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1.) Comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2.) Having deposits compared to the receipts ledger and bank statements; and 3.) Comparing checks to monthly tax reports.

*Sheriff's Response:*

*None*

Prior Year:

The Sheriff Should Pay All Taxes Due The Districts

This comment has been corrected.

Lacks Adequate Segregation Of Duties

This comment is repeated in the current year.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



**ROSS & COMPANY, PLLC**  
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The Honorable Robert Ray Drake, Powell County Judge/Executive  
The Honorable Joe Martin, Powell County Sheriff  
Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Powell County Sheriff's Settlement - 2003 Taxes as of July 13, 2004, and have issued our report thereon dated February 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powell County Sheriff's Settlement - 2003 Taxes as of July 13, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

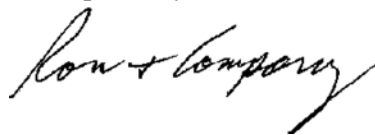
- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
February 1, 2005

